

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2011-271-E
December 7, 2011

IN RE: Application of Duke Energy Carolinas, LLC)
for Authority to Adjust and Increase Its)
Electric Rates and Charges)

SETTLEMENT
AGREEMENT

This Settlement Agreement ("Settlement Agreement") is made by and among the South Carolina Office of Regulatory Staff ("ORS"); Wal-Mart Stores, East, LP and Sam's East, Inc. ("Walmart"); and Duke Energy Carolinas, LLC ("Duke" or the "Company") (collectively referred to as the "Parties" or sometimes individually as "Party").

WHEREAS, the Company has prepared and filed an Application for Authority to Adjust and Increase Its Electric Rates and Charges (the "Application") seeking an adjustment to its rates, charges, and tariffs set out in its rate schedules for the provision of electric service;

WHEREAS, the above-captioned proceeding has been established by the Public Service Commission of South Carolina (the "Commission") pursuant to the procedure established in S.C. Code Ann. § 58-27-810 *et seq.* (Supp. 2010), and the Parties to this Settlement Agreement are parties of record in the above-captioned docket;

WHEREAS, ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (Supp. 2010);

WHEREAS, ORS has conducted an examination of the books and records of the Company relative to the matters raised in the Application; to test-period revenues, operating

expenses, depreciation and taxes paid by the Company; to rate base, plant in service, construction work in progress, working capital, and capital expenditures; and to other relevant accounting matters;

WHEREAS, ORS also has examined all accounting and pro forma adjustments proposed by the Company in the Application, as well as the Company's cost of service study and rate design, and information related to the Company's operations;

WHEREAS, ORS has examined the Company's capital structure and cost of capital;

WHEREAS, the Parties have varying positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of some or all of the issues would be in their best interests and, in the case of ORS, in the public interest; and,

WHEREAS, following those discussions, the Parties have determined that their interests, and ORS has determined that the public interest, would be best served by stipulating to a comprehensive settlement of all issues pending in the above-captioned case under the terms and conditions set forth herein;

NOW, THEREFORE, the Parties hereby stipulate and agree to the following terms, which, if adopted by the Commission in its Order on the merits of this proceeding, will result in rates and charges that are lawful, just, reasonable, and supported by the evidence of the record of this proceeding, and which will allow the Company the opportunity to earn a reasonable rate of return.

STIPULATION OF SETTLEMENT AGREEMENT, TESTIMONY AND WAIVER OF

CROSS-EXAMINATION

1) The Parties agree to stipulate into the record before the Commission this Settlement Agreement.

2) The Parties agree to stipulate into the record before the Commission the pre-filed testimony and exhibits (collectively, the “Stipulated Testimony”) of the following witnesses without objection, change, amendment or cross-examination with the exception of changes comparable to those that would be presented via an errata sheet or through a witness noting a correction consistent with this Settlement Agreement. The Parties also reserve the right to engage in redirect examination of witnesses as necessary to respond to issues raised by the examination of their witnesses, if any, by non-Parties or by late-filed testimony by non-Parties.

Duke witnesses:

1. Catherine E. Heigel (direct, rebuttal and settlement)
2. Jeffrey R. Bailey (direct, supplemental and rebuttal)
3. Stephen G. DeMay (direct and rebuttal)
4. Robert B. Hevert (direct, rebuttal and settlement)
5. Dhiaa M. Jamil
6. Jane L. McManeus
7. Carol E. Shrum (direct, rebuttal and settlement)
8. Jim L. Stanley
9. Phillip O. Stillman (direct and rebuttal)
10. J. Danny Wiles
11. Barbara Yarbrough (rebuttal – confidential and public)

ORS witnesses:

1. M. Anthony James
2. Leigh C. Ford
3. Douglas H. Carlisle, PhD (as Revised 11/15/11)
4. Henry N. Webster, II
5. Christina Stutz
6. Sharon G. Scott (as Revised 11/15/11)

Walmart witness:

1. Steve W. Chriss

TERMS

3) In its Application, the Company sought approval of a return on common equity ("ROE") of 11.5% and requested a revenue increase of approximately \$216,000,000. As a compromise, the Parties stipulate and agree to a 10.5% return on common equity and a revenue increase of \$92,844,000. Of this amount, \$90,654,000 is based on the accounting and pro forma adjustments shown on Exhibits SGS-1 and SGS-2 to the testimony of ORS witness Scott. The remaining \$2,190,000 is based on the new combined cycle turbine at Buck Steam Station site ("Buck") and the new powerhouse downstream of the Bridgewater Hydro Station ("Bridgewater") being placed into service and booked to plant in service after the ORS testimony was filed but prior to the date of the hearing in this docket. The Buck revenue amount is \$1,807,000 and the Bridgewater revenue amount is \$383,000. The ORS accounting and pro forma adjustments showing the \$92,844,000 are shown in Supplemental Attachment A to this Settlement Agreement.

4) The Parties agree that the \$92,844,000 revenue increase will be allocated among the rates and customer classes as shown in Supplemental Attachment B to this Settlement Agreement. Supplemental Attachment B sets forth the proposed rate increases by customer class, as well as the respective rates of return by customer class. The rates are designed to recover the revenue requirement in an equitable and reasonable manner. In addition, the proposed allocations in Supplemental Attachment B are just and reasonable.

5) The Parties agree to accept all proposals and recommendations put forth in ORS's testimony. The remaining proposals contained in the Application and Stipulated Testimony of

Duke which do not conflict with ORS's Stipulated Testimony are incorporated by reference into this Settlement Agreement except as otherwise changed by this Settlement Agreement.

6) The Parties agree that Duke shall make a one-time shareholder contribution to AdvanceSC in the amount of \$4 million to be used to fund Share the Warmth and other public assistance programs, manufacturing competitiveness grants, economic development and/or education/workforce training programs.

REMAINING TERMS AND CONDITIONS

7) The Parties agree to advocate that the Commission accept and approve this Settlement Agreement in its entirety as a fair, reasonable and full resolution of all issues in the above-captioned proceeding, and to take no action inconsistent with its adoption by the Commission.

8) The Parties further agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission in its entirety. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

9) The Parties agree that signing this Settlement Agreement (a) will not constrain, inhibit, impair, or prejudice their arguments or positions held in future or collateral proceedings; (b) will not constitute a precedent or evidence of acceptable practice in future proceedings; and (c) will not limit the relief, rates, recovery or rates of return that any Party may seek or advocate in any future proceeding. If the Commission declines to approve this Settlement Agreement in its entirety, then any Party may withdraw from the Settlement Agreement without penalty or obligation.

10) The Parties agree that nothing in this Agreement shall affect, impact or change rates currently being charged by Duke Energy Carolinas to certain ratepayers in Greenwood, South Carolina under the provisions of 1966 Act 1293 and Duke Power Co. v. S. C. Pub. Serv. Comm'n, 284 S.C. 81, 326 S.E.2d 395 (1985).

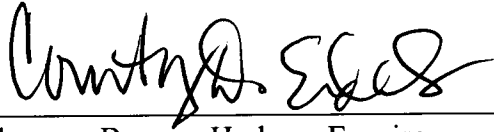
11) The Parties agree that the revenue increase addressed in this Settlement Agreement is not connected to any cost associated with the Company's proposed Lee Nuclear Station or the merger of the Company with Progress Energy Carolinas, Inc.

12) This Settlement Agreement shall be interpreted according to South Carolina law.

13) The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement, by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement. The Parties agree that in the event any Party should fail to indicate its consent to this Settlement Agreement and the terms contained herein, then this Settlement Agreement shall be null and void and will not be binding on any Party.

[PARTY SIGNATURES TO FOLLOW ON SEPARATE PAGES]

Representing the South Carolina Office of Regulatory Staff

A handwritten signature in black ink, appearing to read "Courtney D. Edwards", written over a horizontal line.

Shannon Bowyer Hudson, Esquire

Courtney D. Edwards, Esquire

South Carolina Office of Regulatory Staff

1401 Main Street, Suite 900

Columbia, SC 29201

Phone: (803) 737-0889

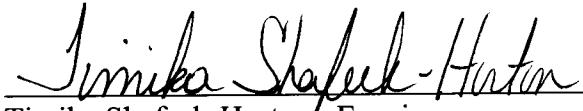
(803) 737-8440

Fax: (803) 737-0895

Email: shudson@regstaff.sc.gov

Email: cedwards@regstaff.sc.gov

Representing Duke Energy Carolinas, LLC



Timika Shafeek-Horton, Esquire

Charles A. Castle, Esquire

Duke Energy Carolinas, LLC

550 South Tryon Street, DEC 45 A

Charlotte, NC, 28202

Email: timika.shafeek-horton@duke-energy.com

Email: alex.castle@duke-energy.com

Phone: 704-382-6373

Fax: 704-382-8173

Frank R. Ellerbe, III, Esquire

Bonnie D. Shealy, Esquire

Robinson McFadden & Moore, PC

Post Office Box 944

Columbia, SC, 29202

Phone: 803-779-8900

Fax: 803-252-0724

Email: fellerbe@robinsonlaw.com

Email: bshealy@robinsonlaw.com

Representing Wal-Mart Stores East, LP and Sam's East, Incorporated

A handwritten signature in black ink, appearing to read 'Holly R. Smith', is written over a horizontal line.

Holly Rachel Smith, Esquire

Holly Rachel Smith, PLLC

Hitt Business Center

3803 Rectortown Road

Marshall, VA 20115

Email: holly@raysmithlaw.com

Phone: 202-302-3172

Fax: 703-313-8004

Thomas L. Moses, Esquire

Monahan and Moses, LLC

13-B West Washington Street

Greenville, SC, 29601

Email: tom.moses@momolaw.com

Phone: 864-241-4604

Fax: 864-241-4606

(000's Omitted)

Note 1 - Greenwood County Electric Power Commission Operations are excluded from revenues and cost of service.

Duke Energy Carolinas, LLC
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2010
Docket No. 2011-271-E
(000's Omitted)

Adj.#	Adj.#		Duke	ORS	ORS
Per	Per		Retail	Retail	Retail Tax
App.	ORS	Description	Electric	Electric	Adjustment
(A) Electric Operating Revenues					
1	1	To normalize for weather	\$ (66,422)	\$ 0	\$ 0
8	2	Eliminate Unbilled Revenues	(10,935)	(10,935)	(4,183)
13	3	Annualize revenues for current rates	47,451	47,451	18,150
	4	To include bulk power marketing profits	0	2,070	792
	5	To eliminate pension rider revenue	0	(1,398)	(535)
		Total Operating Revenues	\$ (29,906)	\$ 37,188	\$ 14,224
(B) Fuel Used in Electric Generation					
1	6	To normalize for weather	\$ (28,646)	\$ 0	\$ 0
15	7	Update fuel costs to proposed rate	31,870	31,870	(12,190)
		Total Fuel Used in Electric Generation	\$ 3,224	\$ 31,870	\$ (12,190)
(C) Purchased Power and Net Interchange (Non-Fuel)					
15	8	Update fuel costs to proposed rate	\$ 2,946	\$ 2,946	\$ (1,127)
		Total Purchased Power and Net Interchange (Non-Fuel)	\$ 2,946	\$ 2,946	\$ (1,127)
(D) Wages, Benefits, and Materials Expense					
2	9	Normalize for storm costs	\$ 651	\$ 0	\$ 0
4	10	Annualize O&M (non-labor) to year end dollars	1,573	0	0
5	11	Normalize O&M (labor) to year end dollars	(10,494)	(21,510)	8,228
7	12	Annualize operating costs for Cliffside Unit 5 scrubber	1,009	543	(208)
12	13	Remove costs related to energy efficiency and demand side management program	(13,540)	(13,540)	5,179
14	14	Eliminate Contribution of Democratic National Convention Costs	(240)	(240)	92
15	15	Update fuel costs to proposed rate	2,549	2,549	(975)
19	16	Amortize voluntary opportunity plan costs	(23,755)	(23,755)	9,086
20	17	Amortize pension settlement costs	(7,220)	(7,220)	2,762
22	18	Update for increased benefits costs	9,442	6,484	(2,480)
	19	To remove O & M Expenses for Cliffside 6 and 7	0	(155)	59
	20	To remove non-allowable expenses	0	(4,984)	1,906
		Total Wages, Benefits, and Materials Expense	\$ (40,025)	\$ (61,828)	\$ 23,649
(E) Depreciation and Amortization Expense					
6	21	Amortize deferral balance related to Cliffside Unit 5 scrubber	\$ 7,476	\$ 5,784	\$ (2,212)
10	22	Annualize depreciation on year end plant balances	3,047	3,047	(1,165)

Duke Energy Carolinas, LLC
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2010
Docket No. 2011-271-E
(000's Omitted)

Adj.# Per App.	Adj.# Per ORS	Description	Duke Retail Electric	ORS Retail Electric	ORS Retail Tax Adjustment
11	23	Accelerate depreciation on early generating plant retirements	6,455	0	0
16	24	Amortize current rate case costs	86	16	(6)
18	25	Eliminate amortization of nuclear insurance reserve	11,178	11,178	(4,276)
19	26	Amortize voluntary opportunity plan costs	7,918	7,863	(3,008)
20	27	Amortize pension settlement costs	2,407	573	(219)
21	28	Amortize deferral balance related to pension rider	2,684	2,513	(961)
25	29	Reflect depreciation for 2011 additions to plant in service	13,291	12,518	(4,788)
Total Depreciation and Amortization Expense			\$ 54,542	\$ 43,492	\$ (16,635)
(F) General Taxes					
1	30	To normalize for weather	\$ (300)	\$ 0	\$ 0
5	31	Normalize O&M labor costs	(66)	(70)	27
9	32	Annualize property taxes on year end plant balances	2,337	2,337	(894)
13	33	Annualize revenues for current rates	214	215	(82)
25	34	Reflect 2011 additions to plant in service	2,092	1,882	(720)
Total General Taxes			\$ 4,277	\$ 4,364	\$ (1,669)
(G) Income Taxes					
3	35	Reflect change from manufacturing tax deduction	\$ 925	\$ 925	\$ 925
17	36	Synchronize interest expense with end of period rate base	(7,307)	(6,030)	(6,030)
Total Income Taxes			\$ (6,382)	\$ (5,105)	\$ (5,105)
Total Income Taxes for all Adjustments					\$ 1,147
(H) Customer Growth					
37		To adjust operating revenues and expenses for customer growth	\$ 0	\$ 462	\$ 0

Duke Energy Carolinas, LLC
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2010
Docket No. 2011-271-E
(000's Omitted)

Adj.# Per App.	Adj.# Per ORS	Description	Duke Retail Electric	ORS Retail Electric
		(I) Plant in Service		
25	38	To adjust for plant additions to August 2011	\$ 402,242	\$ 361,125
		Total Plant in Service	<u>\$ 402,242</u>	<u>\$ 361,125</u>
		(J) Accumulated Depreciation and Amortization		
25	39	To adjust for accumulated depreciation associated with 2011 plant additions and annualized depreciation expense	\$ (22,793)	\$ (15,565)
		Total Accumulated Depreciation and Amortization	<u>\$ (22,793)</u>	<u>\$ (15,565)</u>
		(K) Materials and Supplies		
23	40	To adjust the fuel stock inventory balance	\$ 13,592	\$ 5,246
		Total Materials and Supplies	<u>\$ 13,592</u>	<u>\$ 5,246</u>
		(L) Working Capital Investment		
		To adjust for accounting and pro forma adjustments	\$ 0	\$ (3,745)
		Total Working Capital	<u>\$ 0</u>	<u>\$ (3,745)</u>
		(M) Accumulated Deferred Income Taxes		
25	42	To adjust for bonus depreciation on 2011 plant additions	\$ (76,603)	\$ (68,872)
26	43	To adjust for deferred taxes associated with the option payment from Jacksonville Electric Authority	419	419
		Total Accumulated Deferred Income Taxes	<u>\$ (76,184)</u>	<u>\$ (68,453)</u>
		(N) Operating Reserves		
18	44	To adjust for Nuclear Insurance dividends returned to customer	\$ 14,703	\$ 14,703
26	45	To reflect funds received from option payment from Jacksonville Electric Authority	(1,335)	(1,335)
		Total Operating Reserves	<u>\$ 13,368</u>	<u>\$ 13,368</u>
		(O) Construction Work In Progress		
24	46	To reflect the amount of CWIP the Company has invested in new electric plant	\$ 510,340	\$ 416,800
		Total Construction Work In Progress	<u>\$ 510,340</u>	<u>\$ 416,800</u>

Duke Energy Carolinas, LLC
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2010
Docket No. 2011-271-E
(000's Omitted)

Adj.# Per ORS Description	Company Proposed Increase	ORS Proposed Increase
(P) <u>Operating Revenues for Proposed Increase</u>		
47 To adjust revenues for the proposed increase	\$ <u>215,522</u>	\$ <u>92,844</u>
(Q) <u>General Taxes</u>		
48 To adjust gross receipts and SC utility assessment taxes for the proposed increase	\$ <u>973</u>	\$ <u>421</u>
(R) <u>Income Taxes</u>		
49 To adjust Income Taxes for the proposed increase	\$ <u>82,065</u>	\$ <u>35,352</u>
(S) <u>Customer Growth</u>		
50 To adjust operating revenues and expenses for customer growth using the customer growth factor recommended by ORS Electric Department	\$ <u>0</u>	\$ <u>100</u>

**Duke Energy Carolinas 2011 Rate Case
Proposed Revenues and Adjustments
for the test year ended December 31, 2010
Including Buck and Bridgewater**

**Exhibit MAJ-1
(Supplemental)**

Line No.	South Carolina	Present Revenues Annualized	Proposed Revenues Annualized	Proposed Revenue Increase	Proposed Percent Increase
		(a)	(b)	(c)	(d)
	<u>Residential Service</u>				
1	RS	\$355,267,832	\$377,491,154	\$22,223,322	6.26%
2	RE	291,606,314	314,780,386	23,174,073	7.95%
3	ES	278,477	295,606	17,129	6.15%
4	ESA	221,900	239,198	17,298	7.80%
5	RT	617,935	649,554	31,619	5.12%
6	WC	369,386	388,593	19,206	5.20%
7	RB	8,651,035	9,479,537	828,502	9.58%
8	Total Residential Service	\$657,012,879	\$703,324,028	\$46,311,149	7.05%
	<u>General Service</u>				
9	SGS	\$136,306,800	\$141,577,775	\$5,270,975	3.87%
10	LGS	95,203,200	100,584,211	5,381,011	5.65%
11	BC	259,961	281,303	21,343	8.21%
12	HP (LGS)	545,634	545,634	0	0.00%
13	HP (OPT-G)	286,579	286,579	0	0.00%
14	MP	8,311,111	8,779,469	468,358	5.64%
15	OPT	175,130,112	185,668,654	10,538,542	6.02%
16	Total General Service	\$416,043,397	\$437,723,626	\$21,680,229	5.21%
	<u>Industrial Service</u>				
17	HP	\$10,219,049	\$10,219,049	\$0	0.00%
18	I	46,739,693	49,147,109	2,407,416	5.15%
19	MP	10,565,306	11,160,818	595,512	5.64%
20	OPT	377,782,595	397,634,123	19,851,529	5.25%
21	PG	508,013	534,738	26,724	5.26%
22	Total Industrial Service	\$445,814,656	\$468,695,837	\$22,881,181	5.13%
	<u>Lighting</u>				
23	PL	\$5,429,942	\$5,875,488	\$445,546	8.21%
24	OL	19,867,586	20,908,999	1,041,413	5.24%
25	FL	8,076,951	8,529,613	452,663	5.60%
26	GL	23,892	26,004	2,112	8.84%
27	TS	336,048	365,755	29,707	8.84%
28	Total Lighting	\$33,734,419	\$35,705,860	\$1,971,441	5.84%
29	Total Retail	\$1,552,605,351	\$1,645,449,351	\$92,844,000	5.98%

Duke Energy Carolinas 2011 Rate Case
Proposed Revenues and Rate of Return
for the test year ended December 31, 2010
Including Buck and Bridgewater

Exhibit MAJ-2
(Supplemental)

\$ in Thousands

Line No.	Rate Class	Rate Base (a)	Net Operating Income (b)	Current ROR (c)	Proposed Increase (d)	Taxes (e)	Net Income (f)	Net Income After Increase (g)	Proposed ROR (h)
1	Residential	\$1,820,349	\$113,337	6.23%	\$46,311	\$17,844	\$28,467	\$141,804	7.79%
2	General Service	1,053,518	74,206	7.04%	21,680	8,353	13,327	87,533	8.31%
3	Industrial	972,022	66,170	6.81%	22,881	8,816	14,065	80,235	8.25%
4	Lighting	117,175	10,276	8.77%	1,972	760	1,212	11,488	9.80%
5	Total Retail	\$3,963,064	\$263,989	6.66%	\$92,844	\$35,773	\$57,071	\$321,060	8.10%

DUKE ENERGY CAROLINAS
2011 RATE CASE
PROPOSED REVENUES AND RATE OF RETURN
FOR THE TEST YEAR ENDED DECEMBER 31, 2010
INCLUDING BUCK AND BRIDGEWATER